

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

EXPERIMENTAL PERIODICALS
CO-PALLETIZATION DROPSHIP
DISCOUNTS FOR HIGH EDITORIAL
PUBLICATIONS, 2004

Docket No. MC2004-1

COMMENTS OF UNITED STATES POSTAL SERVICE
IN SUPPORT OF SETTLEMENT
(June 15, 2004)

In accordance with the Presiding Officer's Ruling No. MC2004-1/5 (May 27, 2004), the Postal Service hereby provides its Comments in support of settlement of the instant case.

I. Procedural History

On February 25, 2004, the United States Postal Service filed with the Postal Rate Commission ("Commission") the Request of the United States Postal Service for a Recommended Decision on Experimental Periodicals Co-Palletization Dropship Discounts for High Editorial Publications ("Request"). The Request was filed in accordance with 39 U.S.C. §§ 3622 and 3623.

The Postal Service proposed changes to Rate Schedule 421 and the Domestic Mail Classification Schedule, to create experimental rate discounts for co-palletization of high editorial publications. The Postal Service supported its Request with the written direct testimony of witness Altaf H. Taufique (USPS-T-1), and other documents, including an exhibit, submitted pursuant to the Commission's Rules of Practice and Procedure. 39 C.F.R. §§ 3001.1 *et seq.*

The experiment is proposed to be in effect for two years, with an automatic extension if a request for a permanent classification has been filed. The Postal Service estimated that the proposed discounts would produce cost savings greater than the revenue loss. USPS-T-1 at 18; Exhibit USPS-1A.

By Order No. 1392, issued on February 27, 2004, the Commission noticed the Postal Service's Request and designated the instant proceeding as Docket No. MC2004-1. The Commission gave interested parties until March 17, 2004, to intervene in the proceeding, requesting that notices of intervention indicate whether the participant seeks a hearing, and specify any genuine issues of material fact that warrant a hearing. The Commission designated Shelley S. Dreifuss, the Director of its Office of the Consumer Advocate ("OCA"), to represent the general public. The Order also established procedures for expediting the case, and named Postal Service counsel as settlement coordinator.

Eight parties intervened in the proceeding, and no one requested a hearing. After circulating a draft Stipulation and Agreement to the participants for comments, the Postal Service held a Settlement Conference on March 22, 2004. That conference concluded that some parties wished to conduct discovery before deciding whether to settle. After some discovery, informal settlement discussions suggested that no participant would oppose settlement, and most participants would support it.

As a result, a widely supported final Stipulation and Agreement was produced. That Agreement was filed with the Commission on May 26, 2004. Eight of the ten participants have signed the Agreement.¹

The Agreement asks the Commission to recommend the proposed DMCS and fee schedule changes establishing experimental co-palletization dropship discounts for high editorial publications, for approval by the Governors of the United States Postal Service. It bears emphasizing that the Agreement reflects the concurrence of the signatories that, for the purpose of this proceeding, the Postal Service's testimony and supporting documentation provide substantial record evidence sufficient to serve as the basis for the Commission's recommendations to the Governors. Stipulation and Agreement at 2.

On May 27, 2004, the Commission issued the Presiding Officer's Ruling Establishing Procedural Schedule (Ruling No. MC2004-1/5) granting, with some adjustments, the Postal Service's Motion for Establishment of a Procedural Mechanism and Schedule Governing Further Proceedings in Light of Projected Settlement (May 18, 2004). As required by that Ruling, participants designated direct testimonies and written cross-examination, for inclusion in the evidentiary record.² The Postal Service filed a motion requesting that these designations, as

¹ David B. Popkin and Time Warner Inc. have not signed the Agreement, but do not oppose it.

² American Postal Workers Union, AFL-CIO Designation of Written Cross-Examination of United States Postal Service Witness Altaf H. Taufique (USPS-T-1) (June 3, 2004); Office of Consumer Advocate Designation of Written Cross-Examination of United States Postal Service Witness Altaf H. Taufique (USPS-T-1) (June 2, 2004), Designation of Time Warner Inc. of Responses to Discovery Requests By the United States Postal Service for Inclusion in the Evidentiary

well as the testimony of witness Taufique (USPS-T-1), be entered into the record, and provided witness Taufique's declaration in support.³ The Postal Service also requested that the Commission consider the Stipulation and Agreement as the basis for its recommended decision.⁴

Presiding Officer's Ruling No. MC2004-1/5 also set today as the deadline for the filing of comments on the settlement.

II. The Commission Should Recommend the Settlement Agreement.

The broad support for the Settlement Agreement among Periodicals and other participants shows the broad benefits of conducting an experiment to test the impact of the proposed discounts on co-palletization and dropshipping for high editorial publications. The Commission should recommend this proposal so the experiment can go forward.

A. The Proposed Co-Palletization Dropship Discounts for High Editorial Publications Would Provide Operational and Financial Benefits to the Mailing Community and the Postal Service.

Docket No. MC2002-3 established co-palletization dropship per-piece discounts for Periodicals. The objective was to induce Periodicals mail to be moved from sacks to pallets and dropshipped closer to its destination. These discounts have begun to generate a significant amount of co-palletization. See Co-palletization Data Collection Reports, filed at www.prc.gov under Docket No.

Record (June 3, 2004); United States Postal Service Designation of Written Cross-Examination for the Record (June 8, 2004).

³ United States Postal Service Motion to Place Direct Testimony and Written Cross-Examination into the Record (June 8, 2004).

⁴ Motion of the United States Postal Service for Consideration of the Stipulation and Agreement as the Basis for Recommended Decision (June 8, 2004).

MC2002-3. They do not, however, provide an effective incentive for high editorial publications that are heavy and have low circulation. USPS-T-1 at 3-6.

Such publications get only a small benefit from the existing per-piece discount, in offsetting the costs of co-palletization (for example, mail handling) and transportation. Moreover, those publications receive little or no benefit from the zone differentials in Periodicals rates, because those differentials apply only to the advertising portion of a publication. *Id.* Therefore, the Postal Service is proposing alternative discounts.

These discounts would be available only as an alternative to the existing co-palletization discounts. They would be limited to Periodicals mail that has, at most, 15 percent advertising matter, that weighs at least 9 ounces per copy, that has a mailed circulation of not more than 75,000 copies, and that lacks the density to prepare single-publication pallets. USPS-T-1 at 7. The goal is to drive costs out of the Periodicals class by encouraging low-density, high editorial publications to combine with other publications. Through such combinations, Periodicals mail will migrate from more costly sacks to less costly pallets, and will be dropshipped, saving additional costs. USPS-T-1 at 5, 18.

The proposed discounts are based on the zones skipped as a result of co-palletization and dropshipping. Two levels of discount are proposed, distinguished by depth of container sort and destination entry: ADC (Area Distribution Center) and SCF (Sectional Center Facility). The proposed discounts are as follows:

<u>Zones Avoided</u>	<u>DADC</u>	<u>DSCF</u>
1 & 2	\$0.008	\$0.014
3	\$0.013	\$0.019
4	\$0.028	\$0.034
5	\$0.050	\$0.056
6	\$0.073	\$0.079
7	\$0.101	\$0.107
8	\$0.125	\$0.131

USPS-T-1 at 13.

These discounts reflect conservatively the estimated costs avoided by the amount of worksharing performed by the mailer. USPS-T-1 at 16. The proposed discounts would be additional options offered to mailers; existing Periodicals classifications and rates, including the current experimental co-palletization discounts, would remain unchanged.⁵

As demonstrated in the testimony of witness Taufique, the Postal Service's overall revenue position will not be affected materially under the proposed experiment. USPS-T-1 at 18. The Postal Service does not need to make a capital investment to initiate the experiment. The discounts selected are based on conservative cost avoidance estimates, and employ less than full passthroughs. *Id.* at 16. Thus, the proposed experiment creates no appreciable risk of significant, negative financial results or harm to the Postal Service, mailers using the discounts, or other mailers.

The Postal Service proposes that this experimental classification be in effect for two years, which should allow mailers sufficient time to adjust their mailing practices to use the classification. Moreover, this period will provide the

⁵ Either the per-piece or the per-pound co-palletization discounts would be available for a particular publication, but not both.

Postal Service adequate time to aggregate and fully analyze data collected under the experiment, so that a request for a permanent change in mail classification can be prepared if the data are determined to support such a request. If such a request is made within the experimental period, the Postal Service asks that the experiment continue until action on that request can be completed, thus avoiding disruption to both mailers and the Postal Service. USPS-T-1 at 15.

The Postal Service believes that the classifications embodied in this proposed experiment will be attractive to mailers and will contribute to the long-term viability of the postal system. The proposed classifications will further the general policies of efficient postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act. See 39 U.S.C. §§ 101(a), 403(a), and 403(b). The requested changes also conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c). USPS-T-1 at 20-22.

B. The Proposed Extension of the Current Co-Palletization Experiment, Along with a Minor DMCS Correction, Should also be Recommended.

In conjunction with the proposed experimental classification change, the United States Postal Service desires to extend the current co-palletization experiment so that both experiments expire at the same time. USPS-T-1 at 15. Finally, the Postal Service proposes to add a minor Domestic Mail Classification Schedule (DMCS) clarification to allow sample copies of periodicals to be mailed with parcels using Package Services rates. USPS-T-1 at 2, 23-25. No one has opposed these proposals, and they should be recommended.

III. Conclusion

The Postal Service requests that the Commission issue an Opinion and Recommended Decision favoring the proposed DMCS and fee schedule changes for experimental co-palletization dropship discounts for high editorial publications. This Request meets the criteria of the Postal Reorganization Act, and is supported by all participants who have taken a position on the Settlement Agreement.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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/s/ _____
David H. Rubin

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

/s/ _____
David H. Rubin

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